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DCI/RM 80-2020  
8 September 1980

25X1 MEMORANDUM FOR: [REDACTED]  
AD/DCI/RM

25X1 THROUGH: [REDACTED]  
DD/PAO

25X1 FROM: [REDACTED]  
PAO

25X1 SUBJECT: A Proposal to Establish a Community Working Group  
on Inflation [REDACTED]

1. INTRODUCTION: The NFIP has faced two major problems with respect to inflation; how to insure that inflation does not reduce NFIP capabilities and how to justify in an explicit and credible way "our" inflation problem to OMB. The usual course has been a last minute adjustment to the budget that is probably inadequate in many areas and which inevitably disrupts the decisionmaking process by re-pricing decision packages and by diverting scarce analytical and decisionmaking resources to a justification of the differential impact of inflation on the NFIP as a whole. [REDACTED]

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As in the past, this year's effort to develop a preliminary estimate of an overall non-manpower inflation rate for the NFIP (9.2 percent using CBO indices and 8.4 percent using OSD Comptroller indices) has surfaced major problems associated with using the available non-NFIP price indices:

- o OMB finds convincing only those inflation measures that:
  - are independent of agency programs;
  - use economic assumptions that are consistent with the President's economic program;
  - distinguishes between the cost of services already contracted (especially if they are O&M contracts) and real increases in program (more likely for procurement);
- o OSD Comptroller's estimates are made at the appropriation account level (except for fuel) and are thus too aggregated for our purposes (the Department of Commerce is completing the DoD Price Index Project that might be adapted to measure NFIP inflation;

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25X1

- o PA&E also has an inflation measure that has not been examined (Don Leyden of OMB has indicated that they prefer the comptroller's).
- o the CBO estimates are based on CBO's own projections for the economy rather than the President's program and thus provide no basis for formal estimates of NFIP inflation (though their methods may be useful). ☐

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Building a Community-wide estimate from within has likewise proved problematic since multiple approaches to categorizing cost and indexing for inflation are taken within the NFIP:

- o the CIA develops their own measures of inflation, including an always controversial estimate of overseas inflation that OMB has not found convincing;

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- o the GDIP is a captive of the DoD budget process and as a consequence automatically adopts the DoD policy for inflation;
- o the CCP is more independent of DoD, but in general follows DoD policy on inflation as well; and
- o the balance of the program is driven by their parent department's policy (Energy, Justice, State, and Treasury). ☐

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2. THE PROBLEM: RMS needs to establish control over the Community's estimates of inflation in order to protect the NFIP from a reduction of its capabilities by inflation, and to provide a defensible explanation to OMB of the effect of inflation on the NFIP. This requires that procedures be established to estimate a Community-wide standard for the two components of inflation -- price indices for a set of mutually exclusive and exhaustive cost categories and weights to apply to the indices. Procedures for regularly revising these components as additional information are available must be established as well. As a basis for these estimates, a uniform set of cost categories must be selected and procedures for submitting cost information established. ☐

25X1

As a consequence, we propose that you chair a community working group on inflation whose task it will be to:

- o define rationalized and standardized NFIP cost accounting categories,

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25X1

- o develop methodologies for indexing these categories with respect to inflation,
- o establish procedures for accumulating or disseminating cost data by program for inflation estimation.

This working group could be formed within the next two months and would have as a target completion date, June 1981. Membership of the working group would include a representative (probably the comptroller) from each of the programs. Each of those representatives would designate a member of their staff to serve on the staff of the working group which would include as well members of the various offices in RMS.

### 3. SCHEDULE:

First Meeting: October 1980

- Specify terms of reference and Study Plan,
- Establish a staff to rationalize cost categories and inflation estimating procedures, and
- Request description of current cost categories and procedures for estimating inflation by program.

Second Meeting: November 1980

- Issue draft description of current cost categories and inflation estimating procedures,
- Request preliminary estimates of inflation during FY83 program period using current, unstandardized procedures.

Third Meeting: December 1980

- Issue draft inflation rates for FY83 guidance.

Fourth Meeting: January 1981

- Issue data call for expenditures and TOA for preceding 5 years (FY76 through FY80) for rationalized cost categories.

Fifth Meeting: February 1981

- Staff reports on:
  - uniform cost categories and
  - inflation procedures and estimates.

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25X1

Sixth Meeting: March 1981

- Staff reports on:
  - procedures for quarterly revision of price indices and semiannual revisions of weights.

Seventh Meeting: April 1981

- Review first draft of report on estimated inflation rates, reporting and estimating procedures, and uniform cost categories.

Eighth Meeting: June 1981

- Final report approved and issued and
- RMS to implement new procedures. ☐

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4. LEVEL-OF-EFFORT:

- Chairman, 1/8 to 1/4 time,
- Staff Director, 3/4 to full time,
- RMS 1/4 each from PBO, PAO, PGS, CLLS,
- 1/2 to 3/4 each from CIA Comptroller, NSA Program and Budget, ☐ Program and Budget, OSD Comptroller (GDIP). ☐

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